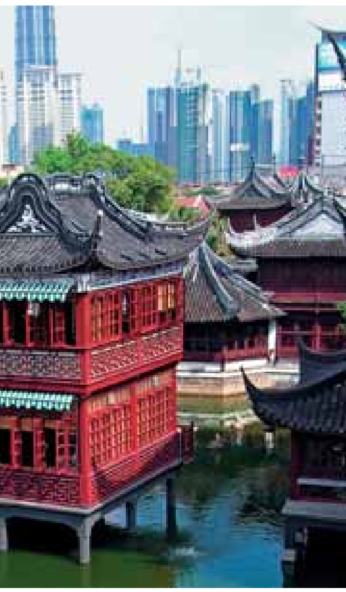
Givaudan
Leading Sensory Innovation



Financial Report 2006

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Financial Review

in millions of Swiss francs, except for per share data	2006	2005
Sales	2,909	2,778
Gross profit	1,436	1,359
as % of sales	*49.4%*	*48.9%*
EBITDA at comparable basis [a c]	660	640
as % of sales	*22.7%*	*23.0%*
EBITDA [a]	628	640
as % of sales	*21.6%*	*23.0%*
Operating profit at comparable basis [b]	550	534
as % of sales	*18.9%*	*19.2%*
Operating profit	514	513
as % of sales	*17.7%*	*18.5%*
Result attributable to equity holders of the parent	412	406
as % of sales	*14.2%*	*14.6%*
Earnings per share – basic (CHF)	58.62	56.57
Earnings per share – diluted (CHF)	58.22	56.17
Operating cash flow	449	502
as % of sales	*15.4%*	*18.1%*

a) EBITDA: Earnings Before Interest (and other financial income), Tax, Depreciation and Amortisation. This corresponds to operating profit before depreciation, amortisation and impairment of long-lived assets.

b) Comparable operating profit for 2006 excludes: restructuring charges, long- lived assets impairments, a one time gain on a land disposal and the net cost of the butter flavours litigation case settlement. Comparable operating profit for 2005 excludes: long- lived assets impairments.

c) Comparable EBITDA for 2006 excludes: restructuring charges, a one time gain on land disposal and the net cost of the butter flavours litigation case settlement.

in millions of Swiss francs, except for employee data	31 December 2006	31 December 2005
Total assets	4,700	4,516
Total liabilities	1,904	2,079
Total equity	2,796	2,437
Number of employees	6,056	5,924

Foreign exchange rates

Foreign currency to Swiss francs exchange rates

	ISO code	Units	31 Dec 2006	Average 2006	31 Dec 2005	Average 2005	31 Dec 2004
Dollar	USD	1	1.22	1.25	1.32	1.25	1.14
Euro	EUR	1	1.61	1.57	1.56	1.55	1.55
Pound	GBP	1	2.39	2.31	2.26	2.26	2.18
Yen	JPY	100	1.02	1.08	1.11	1.13	1.11

On 22 November 2006, Givaudan signed an agreement with UK-based Imperial Chemical Industries PLC to acquire its fragrance and flavour business, Quest International, for GBP 1.2 billion or around CHF 2.8 billion. In 2006, the financial effects of this planned transaction are limited to certain hedging transaction charges and balance sheet movements, deferred expenses, and cash received from the sale of the Givaudan shares bought under the buy back programme.

We expect this transaction to close in the first half of 2007.

Operating Performance

In an increasingly challenging environment, Givaudan again delivered a solid operating performance in 2006, particularly when compared to the strong results of the previous year.

Sales increased by 4.7 % in Swiss francs and 3.5 % in local currencies. It should be noted that both divisions continued to eliminate low value-added ingredients from their respective product portfolios. Excluding this streamlining effect, sales increased by 4.9 % in local currencies.

Gross profit improved by 5.7% to CHF 1,436 million representing a gross margin of 49.4% compared to 48.9% for the previous year. Despite several raw material cost increases, the margin level was maintained thanks to an improved product mix, selected price increases as well as disciplined cost control and efficiency gains.

As communicated on 4 August 2006, Givaudan achieved an out of court full and final settlement with 51 plaintiffs involved in the US butter flavour litigation. The net impact recorded in the 2006 income statement was CHF 44 million. Approximately CHF 24 million (USD 20 million) is still under discussion with insurers and Givaudan pursues the recovery of this amount.

2006 operating profit remained at 2005 level. However, on a comparable basis, (2005: excluding asset impairment in connection with announced site closures; 2006: excluding restructuring charges and asset impairments in connection with announced site closures, the net effect of the butter flavour litigation case settlement and a one time gain resulting from land disposal) the operating profit increased by 3.0%. Comparable EBIT and EBITDA margins decreased slightly to 18.9% and 22.7% respectively.

Project Outlook

Our business transformation project “Outlook”, which intends to implement a new Enterprise Resource Planning (ERP) system in the supply chain, regulatory and finance areas started in September 2006 is progressing as planned. It will allow Givaudan to establish an integrated enterprise architecture, further develop best in class processes and achieve operational efficiencies.

Financial Performance

Financial expenses, net of income, decreased by CHF 20 million to CHF 6 million in 2006, mainly thanks to lower interest charges as well as realised and unrealised net gains on some derivatives in connection with hedging transactions.

The average expected tax rate was maintained at 19% The effective tax rate in 2006 reached 19%, compared to 16% in 2005. However, the latter was positively impacted by a one time effect of CHF 13 million.

Net profit after taxes increased by 1.5% to CHF 412 million, representing 14.2% of sales. As a consequence of the net profit improvement and the lower average number of outstanding shares, earnings per share increased by 3.6% to CHF 58.62.

Cash flow

Givaudan continued to deliver a sound operating cash flow of CHF 449 million, below 2005 by CHF 53 million, mainly due to payments made in connection with the butter flavour litigation case settlement. Total net investments of CHF 142 million remained stable, leading to an operating cash flow after investments of CHF 307 million.

During 2006, Givaudan returned CHF 126 million in cash to its shareholders in the form of a dividend.

Balance sheet

The Givaudan balance sheet remained strong. At the end of 2006, the equity ratio reached 59% of total assets, up from 54% at the end of 2005. Due to a lower debt, resulting mainly from changes in exchange rates, and increased cash, mainly due to the sale of shares from the third share buy back programme, net debt decreased from CHF 618 million to CHF 479 million.

Share Buy Back Programme

In anticipation of the acquisition financing of Quest International, Givaudan resold all the 133,800 shares originally bought under its third share buy back programme. The CHF 141 million net cash received is restricted for the payment of the acquisition.

Dividend

The Board of Directors will propose to the Annual General Meeting of 30 March 2007 the payment of an ordinary dividend of CHF 18.80 per share. This represents a 6.8% increase of the ordinary dividend per share.

Consolidated Financial Statements

Consolidated Income Statement for the Year Ended 31 December

in millions of Swiss francs, except for per share data	Note	2006	2005
Sales	5	2,909	2,778
Cost of sales		(1,473)	(1,419)
Gross profit		1,436	1,359
as % of sales		*49.4%*	*48.9%*
Marketing, development and distribution expenses	6	(730)	(658)
Administration expenses		(114)	(112)
Amortisation of intangible assets	18	(19)	(19)
Other operating income (expenses), net	9	(59)	(57)
Operating profit		514	513
as % of sales		*17.7%*	*18.5%*
Finance costs	10	(44)	(71)
Other financial income (expenses), net	10	38	45
Result before taxes		508	487
Income taxes	11	(95)	(80)
▶ Result for the period		413	407
▶ Attribution:		413	407
Result attributable to minority interest	12	1	1
Result attributable to equity holders of the parent		412	406
as % of sales		*14.2%*	*14.6%*
▶ Earnings per share – basic (CHF)	13	58.62	56.57
▶ Earnings per share – diluted (CHF)	13	58.22	56.17

Consolidated Balance Sheet at 31 December

in millions of Swiss francs	Note	2006	2005
Cash and cash equivalents		424	289
Available-for-sale financial assets	14	261	285
Accounts receivable – trade	15	485	471
Inventories	16	535	548
Current income tax assets	11	5	12
Derivative financial instruments	20	62	10
Derivatives on own equity instruments	22	42	45
Other current assets		106	63
Current assets		1,920	1,723
Property, plant and equipment	17	1,140	1,130
Intangible assets	18	1,331	1,369
Deferred income tax assets	11	116	110
Other long-term assets		193	184
Non-current assets		2,780	2,793
▶ Total assets		4,700	4,516
Short-term debt	19	189	190
Provisions	21	10	16
Accounts payable – trade and others		173	191
Current income tax liabilities	11	43	43
Derivative financial instruments	20	7	13
Financial liabilities: own equity instruments	22	-	144
Accrued and other current liabilities		197	166
Current liabilities		619	763
Long-term debt	19	975	1,002
Provisions	21	35	35
Liabilities for post-employment benefits	7	106	119
Deferred income tax liabilities	11	101	92
Other non-current liabilities		68	68
Non-current liabilities		1,285	1,316
▶ Total liabilities		1,904	2,079
Share capital	23	72	74
Retained earnings and reserves	23	3,180	3,010
Hedging reserve	4	52	
Own equity instruments	23	(136)	(318)
Fair value reserve for available-for-sale financial assets		19	18
Cumulative translation differences		(394)	(349)
Total equity attributable to equity holders of the parent		2,793	2,435
Minority interest	12	3	2
▶ Equity		2,796	2,437
▶ Total liabilities and equity		4,700	4,516

Consolidated Statement of Changes in Equity for the Year Ended 31 December

in millions of Swiss francs – 2006	Note	Share Capital	Restricted retained earnings and reserves	Unrestricted retained earnings and reserves	Own equity instruments	Hedging reserve	Fair value reserve for available-for-sale financial assets	Currency translation differences	Equity attributable to equity holders of the parent	Minority interest	Total
▶ Balance at 1 January 2006		74	273	2,737	(318)		18	(349)	2,435	2	2,437
Movement on fair value for available-for-sale financial assets, net							(12)		(12)		(12)
Movement on deferred taxes on fair value adjustments							(2)		(2)		(2)
(Gain) loss on available-for-sale financial assets removed from equity and recognised in the income statement							15		15		15
Movement on hedging reserve	4					52			52		52
Change in currency translation								(45)	(45)		(45)
▶ Net gains (losses) not recognised in the income statement						52	1	(45)	8		8
Net income				412					412	1	413
▶ Total recognised income and expenses for the year				412		52	1	(45)	420	1	421
Cancellation of shares	23	(2)		(149)	151						
Capital increase from conditional capital	23	-	33		(33)						
Dividends paid	23			(126)					(126)		(126)
Transfer from restricted reserves			(26)	26							
Movement on own equity instruments, net					64				64		64
▶ Net changes in other equity items		(2)	7	(249)	182				(62)		(62)
▶ Balance at 31 December 2006		72	280	2,900	(136)	52	19	(394)	2,793	3	2,796

in millions of Swiss francs – 2005	Note	Share Capital	Restricted retained earnings and reserves	Unrestricted retained earnings and reserves	Own equity instruments	Equity component of exchangeable bond	Fair value reserve for available-for-sale financial assets	Currency translation differences	Equity attributable to equity holders of the parent	Minority interest	Total
▶ Balance at 1 January 2005		78	504	2,499	(664)	8	13	(451)	1,987	1	1,988
Movement on fair value for available-for-sale financial assets, net							17		17		17
Movement on deferred taxes on fair value adjustments											
(Gain) loss on available-for-sale financial assets removed from equity and recognised in the income statement							(12)		(12)		(12)
Change in currency translation								102	102		102
▶ Net gains (losses) not recognised in the income statement							5	102	107		107
Net income				406					406	1	407
▶ Total recognised income and expenses for the year				406			5	102	513	1	514
Cancellation of shares	23	(4)		(290)	294						
Dividends paid	23			(117)					(117)		(117)
Transfer from restricted reserves			(231)	231							
Movement on own equity instruments, net				8	52	(8)			52		52
▶ Net changes in other equity items		(4)	(231)	238	346	(8)			341	1	342
▶ Balance at 31 December 2005		74	273	2,737	(318)		18	(349)	2,435	2	2,437

Consolidated Cash Flow Statement for the Year Ended 31 December

in millions of Swiss francs	Note	2006	2005
▶ Cash flows from (for) operating activities	25	449	502
Proceeds from issue of straight bond			297
Other increase (decrease) in long-term debt, net		14	(28)
Repayment of straight bond			(300)
Other increase (decrease) in short-term debt, net		6	(16)
Interest paid		(45)	(62)
Dividends paid		(126)	(117)
Acquisition of own equity instruments, net		(194)	(339)
Proceeds from share buy back (restricted cash)	4	141	
Others, net		13	17
▶ Cash flows from (for) financing activities		(191)	(548)
Purchase of property, plant and equipment and intangible assets	17,18	(169)	(161)
Proceeds from the disposal of property, plant and equipment and intangible assets		27	10
Interest received		3	5
Dividends received		1	1
Purchase and sale of available-for-sale financial assets, net		47	67
Purchase and sale of derivative financial instruments, net		5	(36)
Others, net		(36)	(24)
▶ Cash flows from (for) investing activities		(122)	(138)
▶ Net increase (decrease) in cash and cash equivalents		136	(184)
Net effect of currency translation on cash and cash equivalents		(1)	14
▶ Increase (decrease) in cash and cash equivalents		135	(170)
Cash and cash equivalents at the beginning of the year		289	459
▶ Cash and cash equivalents at the end of the year		424	289

Notes to the Consolidated Financial Statements

1. Group organisation

Givaudan SA and its subsidiaries (hereafter 'the Group'), operate under the name Givaudan. Givaudan SA is a limited liability company incorporated and domiciled in Switzerland. The Group is headquartered in Vernier, near Geneva, Switzerland.

Givaudan is a leading supplier of creative fragrance and flavour products to consumer goods industries. It operates in over 100 countries and has subsidiaries and branches in more than 40 countries. World-wide, it employs 6,056 people. A list of the principal Group companies is shown in Note 27 of the consolidated financial statements.

The Group is listed on the SWX Swiss Exchange.

2. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, derivative financial instruments and on own equity instruments classified as derivatives.

Givaudan SA's Board of Directors approved these consolidated financial statements on 16 February 2007.

Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

a) Critical accounting estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are for the most part related to the impairment of goodwill requiring estimations of the value in use of the cash-generating units to which goodwill is allocated (see Note 18), to the calculation of the present value of defined benefit obligations requiring financial and demographic assumptions (see Note 7), to the determination provision for income taxes requiring estimated calculations for which the ultimate tax determination is uncertain (see Note 11) and to the provisions requiring assumptions to determine reliable best estimates (see Note 21). If, in the future, estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- *Insurance reimbursement:* the Group achieved an out of court full and final settlement with 51 plaintiffs involved in the butter flavour litigations. The Group has determined that amounts to be received from the insurers are highly probable and meet the criterion of an asset.
- *Enterprise Resource Planning business transformation:* the Group initiated a project to implement a new ERP system to deploy world-wide best in class business processes and implement a harmonized set of data. The project will lead to a business transformation, changing the way the business is currently running in the areas of Finance, Supply Chain and Compliance. The Group has determined that this ERP business transformation will provide future economic benefits to the Group and meets the criterion of an intangible asset (see Note 18).
- *Contingent forward exchange contract and contingent forward starting swaps:* In connection with the expected future purchase of Quest International and the expected future interest payments on debt to be issued to finance the acquisition, the Group has entered into a contingent forward exchange contract to hedge its foreign exchange risk of the future cash payment of GBP 1.2 billion against the Swiss franc. It has also entered into two contingent forward starting swaps to partially hedge the payment of future interest on debt to be issued to finance the acquisition. The fair value of the contingent portions of these instruments is determined taking into account the expected probability of the acquisition to occur. Using a different probability level in the determination of the fair value of the contingent portions of the instruments could have a material effect on the consolidated income statement.

Standards, amendments and interpretations effective in 2006

In the preparation of these financial statements, the Group applied the same accounting principles and policies as applied in the 2005 annual financial report. The amendment to IAS 19 Actuarial Gains and Losses is mandatory for accounting periods beginning on or after 1 January 2006. As a result of its adoption, additional disclosures are made providing information about the assumptions underlying the components of the defined benefits cost, trends in the assets and liabilities in the defined benefit plans, and a sensitivity analysis on assumed medical cost trend. The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations; Group Plans and Disclosures, Amendment to IAS 21 Net Investment in a Foreign Operation, IAS 39 Amendment to Fair Value Option, IAS 39 Cash flow Hedge Accounting of Forecast Intra-group Transactions, amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts, IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRIC 4 Determining Whether an Arrangement Contains a Lease, IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds and IFRIC 6 Liabilities Arising from Participating in a Specific Market (Waste Electrical / Electronic Equipment).

IFRS and IFRIC issued but not yet effective

New and revised standards and interpretations, issued but not yet effective, have been reviewed to identify the nature of the future change in accounting policy and to estimate the effect of any necessary changes in the consolidated income statement and financial position upon their adoption.

a) Issued and effective for 2007:

- IAS 1 Amendment, Capital Disclosures
- IFRS 7 Financial Instruments Disclosures

The Group will apply these standards from 1 January 2007. Adoption of these standards does not have any impact on the classification and valuation of the Group's financial instruments but will impact the format and extent the disclosures presented in the accounts.

- IFRIC 7 Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The Group will apply these interpretations from 1 January 2007. They are not expected to have any impact on the Group's accounts.

b) Issued and effective for 2008:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

The Group has not yet evaluated the impact on its consolidated financial statements.

c) Issued and effective for 2009:

- IFRS 8 Operating Segments

The Group has not yet evaluated the impact on its consolidated financial statements.

2.2 Consolidation

The subsidiaries that are consolidated are those companies controlled, directly or indirectly, by Givaudan SA, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Thus, control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. Companies acquired during the year are consolidated from the date on which operating control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, shares issued and liabilities undertaken or assumed at the date of acquisition, plus any costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest and except for non-current assets (or disposal groups) that are classified as held for sale (see Note 2.16). The excess of the cost of acquisition over the fair value of the Group's share of net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquired subsidiary, a reassessment of the net identifiable assets and the measurement of the cost are made, and then any excess remaining after the reassessment is recognised immediately in the income statement.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Balances, income and expenses resulting from inter-company transactions are eliminated.

2.3 Foreign currency valuation

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in Swiss francs, which is the Group's presentation currency.

Assets and liabilities of Group companies reporting in currencies other than Swiss francs (foreign entities) are translated into Swiss francs using year-end rates of exchange. Sales, costs, expenses, net income and cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in rates of exchange between the beginning and the end of the year and the difference between net income translated at the average year and year-end rates of exchange are taken directly to equity.

On the divestment of a foreign entity, the cumulative currency translation differences relating to that foreign entity are recognised in the consolidated income statement.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions, or using a rate that approximates the exchange rates at the dates of the transactions. Exchange gains and losses arising in Group companies from the translation into their local functional currency of their financial assets and liabilities denominated in foreign currencies and from the settlement of foreign currency transactions are included in the line other financial income (expenses), net.

2.4 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

2.5 Sales and cost of sales

Sales represent amounts received and receivable for goods supplied and services rendered to customers after deducting volume discounts and sales taxes. Sales are recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, which is generally upon shipment of products. Cost of sales includes the corresponding direct production costs of goods manufactured and services rendered as well as related production overheads.

2.6 Research and product development costs

Research and product development costs are recognised as expenses as incurred since the criteria for their recognition as an asset are not met in the opinion of the management.

2.7 Employee benefit costs

Wages, salaries, social security contributions, annual leave and paid sick leave, bonuses and non-monetary benefits are expensed in the year in which the associated services are rendered by the Group's employees.

Pension obligations

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, principally dependent on employees' years of service and remuneration at retirement. Plans are usually funded by payments from the Group and by the employees to financially independent trusts. The liability recognised in the balance sheet is the aggregate of the present value of the defined benefits obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and past service costs not yet recognised. If the aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The present value of the defined benefits obligation and the related current service cost are calculated annually by independent actuaries using the projected unit credit method. This reflects the discounted expected future payment required to settle the obligation resulting from employee service in the current and prior periods. The future cash outflows incorporate actuarial assumptions primarily regarding the projected rates of remuneration growth, long-term expected rates of return on plan assets, and long-term indexation rates. Discount rates, used to determine the present value of the defined benefit obligation, are based on the market yields of high-quality corporate bonds in the country concerned. A portion, representing 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are recognised over the estimated average remaining working lives of employees. Where a plan is unfunded, a liability is recorded in the balance sheet. A portion, representing 10% of the present value of the defined benefit obligation, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are recognised over the estimated average remaining working lives of employees. Past service costs are amortised over the average period until the benefits become vested. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administrated funds. The Group has no further payment obligations once the contributions have been made. The contributions are charged to the income statement in the year to which they relate.

Other post-retirement obligations

Some Group companies provide certain post-retirement healthcare and life insurance benefits to their retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and completing a minimum service period. The expected costs of these benefits are accrued over the periods in which employees render service to the Group.

2.8 Share-based payment

The Group established share option plans to align the long-term interests of Group executives and members of the Board of Directors with the interests of the shareholders. Key executives are awarded a portion of their performance-related compensation either in equity-settled plans or in cash-settled share-based plans.

The *equity-settled plans* are established with call options which have Givaudan registered shares as underlying securities. Call options are set generally with a vesting period of two or three years, during which the options cannot be exercised or transferred. The Group has at its disposal either treasury shares or conditional share capital when the options are exercised. The cost of equity-settled instruments to be expensed, together with a corresponding increase in equity, over the vesting period is determined by reference to the market value of the options granted at the date of the grant. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. No market vesting conditions are involved. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation.

The *cash-settled plans* are established with options right units which provide a right to an executive to participate in the value development of Givaudan call options. Options right units, which may be only settled in cash, are set generally with a vesting period of two or three years, during which the right cannot be exercised. The liability of the cash-settled instruments, together with a corresponding adjustment in expenses, is measured, over the vesting period, initially and at balance sheet date until settled, at market value.

2.9 Taxation

Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the distribution of retained earnings within the Group. Other taxes not based on income, such as property and capital taxes, are included either in the line other operating (expenses) income, net or the line other financial (expenses) income, net according to their nature.

Deferred income taxes are provided based on the balance sheet liability method, under which deferred tax consequences are recognised for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and time, call and current balances with banks and similar institutions (original maturity of 3 months or less). Bank overdrafts are shown within short-term debt in current liabilities on the balance sheet. Cash equivalents are held for the purpose of meeting short-term cash commitments and are subject to an insignificant risk of changes in value.

2.11 Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognised at the settlement date i.e. the date that the asset is delivered to or by the Group. Financial assets are classified as current assets, unless they are expected to be realised beyond twelve months of the balance sheet date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Information on financial risk management of the Group is described in the Note 3. Detailed disclosures can be found in Notes 14 and 20 to the consolidated financial statements.

Dividends and interest earned are included in the line other financial income (expenses), net.

a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired for the purpose of selling in the near term. Derivatives are classified as held for trading unless they are designated and effective hedging instruments. When recognised initially, they are measured at fair value, and transaction costs are expensed in the income statement. For held for trading investments, gains or losses are recognised in the income statement.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest method. For loans and receivables, gains or losses are recognised in the income statement when derecognised, impaired, or through the amortisation process. Loans and receivables are classified as accounts receivable – trade in the balance sheet (see Note 2.13).

c) Held-to-maturity investments
Debt securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. These investments are measured at amortised cost using the effective interest method, less any impairment losses. For held-to-maturity investments, gains or losses are recognised in the income statement when derecognised, impaired, or through the amortisation process.

d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives financial assets that are designated as such or not classified in any of the other categories. They are measured initially at fair value, plus directly attributable transaction costs. At each period-end, the book value is adjusted to the fair value with a corresponding entry in a separate component of equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. When denominated in a foreign currency, any monetary item is adjusted for the effect of any change in exchange rates with unrealised gain or loss booked in the income statement.

For quoted equity instruments, the fair value is the market value being calculated by reference to share exchange quoted selling prices at close of business on the balance sheet date. For non-quoted financial assets, they are re-valued at fair value based on observable market transactions and if not available based on prices given by reputable financial institutions or on the price of the latest transaction.

An available-for-sale instrument is impaired when in management's opinion there is objective evidence that the estimated future recoverable amount is less than the carrying amount and when its market value is 20% or more below its original cost for a sustained six-month period. When an impairment loss has previously been recognised, further declines in value are recorded as an impairment loss in the income statement. The charge is recorded within other financial income (expenses), net line of the consolidated income statement. Impairment losses recognised on equity instruments are not reversed in the income statement. Impairment losses recognised on debt instruments shall be reversed through the income statement if the increase of the fair value of available-for-sale debt instrument objectively relates to an event occurring after the impairment charge.

2.12 Derivative financial instruments and hedging activities
Most derivative instruments are entered into for providing economic hedges. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either, hedges of the fair value of recognised items (fair value hedge), or hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Information on financial risk management of the Group is described in the Note 3. Detailed disclosures can be found in Note 20 to the consolidated financial statements. Movements on the hedging reserve in shareholders' equity are shown in the statement of changes in equity. The fair value of a hedging derivative is classified a current asset or liability unless the maturity of the hedge item is expected to be more than twelve months of the balance sheet date.

a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For fair value hedges relating to items carried at amortised cost, for which the effective interest method is used, the adjustment to carrying value is amortised to the income statement over the time to maturity.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity, while the gain or loss relating to the ineffective portion is recognised immediately in the line other financial income/(expenses), net of the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

When the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the ultimate forecast transaction occurs.

If the forecast transaction is no longer expected to occur, any cumulative gain or loss existing in equity is immediately taken to the income statement.

c) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting and are accounted at fair value through profit or loss. At period-end, the derivatives are re-valued at fair value based on quoted market prices at the balance sheet date, with unrealised gain or loss booked in the income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with realised gain or loss booked in the income statement.

d) Compound financial instruments
Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and when the host contract is not carried at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in the income statement. Compound financial instruments issued by the Group are described in Note 2.20.

2.13 Accounts receivable - trade
Trade receivables are carried at anticipated realisable value. An allowance is made for doubtful receivables based on a periodic review of all outstanding amounts. During the year in which they are identified, bad debts are written off. The charge is reported within marketing, development and distribution expenses of the consolidated income statement.

2.14 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads but exclude borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.15 Property, plant and equipment
Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Estimated useful lives of major classes of depreciable assets are as follows:

Buildings and land improvements	40 years
Machinery and equipment	5-15 years
Office equipment	3 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying values of plant and equipment are written down to their recoverable amount when the carrying value is greater than their estimated recoverable amount (see Note 2.19)

Repairs and maintenance costs are recognised as expenses as incurred.

Interest costs on borrowing to finance the purchase or construction of property, plant and equipment are recognised as expenses as incurred.

2.16 Non-current assets held for sale
Non-current assets may be a component of an entity, a disposal group or an individual non-current asset. They are classified as held for sale if their carrying amount will be recovered through a

sale transaction rather than through continuing use. This situation is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

2.17 Leases

Leases of assets are classified as operating leases when substantially all the risks and rewards of ownership of the assets are not transferred to the Group. Operating lease payments are charged in the consolidated income statement on a straight-line basis over the term of the lease.

When substantially all the risks and rewards of ownership of the assets are transferred to the Group, the leases of assets are classified as finance leases. They are recognised assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a debt. Assets purchased under finance lease are depreciated in accordance with the Group policy. The interest charge is recorded over the lease term in the line finance costs in the consolidated income statement. The Group has no significant finance leases.

2.18 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions is recorded in the balance sheet as an intangible asset. Goodwill is tested annually for impairment or more frequently when there are indications of impairment, and carried at cost less accumulated impairment losses. Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign entity are recorded in the local currency at the effective date of the transaction and translated at year-end exchange rate. Goodwill is allocated to each of the cash-generating units for the purpose of impairment testing. Those cash-generating units represent the Group's investment in each primary reporting segment.

Internally generated intangible assets that are directly associated with the development of identifiable and unique software products and systems controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include system licences, external consultancies, employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other intangible assets such as intellectual property rights (consisting predominantly of know-how being inseparable processes, formulas and recipes) and process-oriented technology are initially recorded at historical cost and classified as intangible assets with finite useful lives. They are carried at cost and are amortised on a straight-line basis over their estimated economic useful lives. Other than noted above, internally generated intangible assets are not capitalised. Estimated useful lives of major classes of amortisable assets are as follows:

ERP business transformation system	7 years
Intellectual property rights	20 years
Process-oriented technology	15 years

An impairment charge of intangible assets is booked when the carrying amount is lower than its recoverable amount being the higher of the value in use and fair value less costs to sell. An impairment loss in respect of goodwill is not reversed. Gains or losses arising from de-recognition are measured as the difference between the net disposal proceeds and the carrying amount and are reported within other operating income (expenses), net in the consolidated income statement.

2.19 Impairment of long-lived assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the recoverable amount of an asset, being the higher of its fair value less cost to sell and its value in use, is less than its carrying amount, then the carrying amount is reduced to the asset's recoverable value. This reduction is reported as an impairment loss within other operating income (expenses), net in the consolidated income statement. Value in use is determined using estimated cash flows, generally over a five-year period, with extrapolating projections for subsequent years. These are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A previously recognised impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

2.20 Debt

The proceeds of straight bonds and of private placements of debt issued are recognised at the proceeds received, net of transaction costs incurred. Any discount arising from the coupon rate, represented by the difference between the net proceeds and the redemption value, is amortised using the effective interest rate method and charged to interest expense over the life of the bond. They are de-recognised at redemption date.

The proceeds, net of expenses, of exchangeable bonds are accounted for by splitting the debt element and the embedded derivative option. The fair value of the liability portion is determined using a market interest rate for an equivalent straight bond; this amount is recorded as a non-current liability. The debt discount arising from the difference between the debt element at issuance and the par value is recognised using the effective interest method over the life of the bonds. The charge is recorded as interest expense in the income statement. The debt securities are de-recognised at the time of option exercise or at redemption date. The residual amount of the proceeds is allocated to the conversion option which is recognised and included in equity or as a derivative financial instrument as appropriate.

Debt is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation.

Restructuring provisions comprise lease termination penalties and employees termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group are not provided in advance.

2.22 Own equity instruments

Own equity instruments are own shares and derivatives on own shares. Purchases and sales are accounted for at the settlement date.

Purchases of own shares are recorded at acquisition cost including transaction costs as a deduction from equity. The original cost of acquisition, results from resale and other movements are reported as changes in equity, net. Treasury shares bought back for the purpose of cancellation are deducted from equity until the shares are cancelled. Treasury shares acquired by the execution of own equity derivatives are recorded at the execution date market price.

The settlement and the contract in derivatives on own shares drive the category of the instruments. When the contract assumes the settlement is made by exchanging a fixed amount of cash for a fixed number of treasury shares, the contract is recorded in equity except for forward contracts to buy and written puts which must be recorded as a financial liability. When the contract assumes the settlement either net in cash or net in treasury shares or in case of option of settlement, the contract is recorded as a derivative. Instruments recognised in equity are recorded at acquisition cost including transaction costs. Instruments recognised as financial liabilities are recorded at the net present value of the strike price of the derivative on own shares with the interest charge recorded over the life of the derivative in the line finance costs of the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivative, with realised gain or loss booked in equity. At period-end, instruments recorded as derivatives are re-valued at fair value based on quoted market prices at the balance sheet date, with unrealised gain or loss booked in the line other financial income (expenses), net in the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with realised gain or loss booked in the line other financial income (expenses), net in the consolidated income statement.

More detailed information is provided in Note 22 of the consolidated financial statements.

2.23 Dividend distributions

Dividend distributions are recorded in the period in which they are approved by the Group's shareholders.

3. Financial risk management

Financial risk management within the Group is governed by policies approved by the Board of Directors and senior management. These policies cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. Group policies also cover areas such as cash management, investment of excess funds and raising short and long-term debt.

When deemed appropriate, certain of the above risks are reduced through the use of financial instruments. Group management believe that, in order to create the optimum value for the Group, it is not desirable to eliminate or mitigate all possible market fluctuations. Financial instruments are selectively used to optimise value. Group companies report details of the financial instruments outstanding and financial liquidity positions to Group Treasury on a monthly basis.

Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in Swiss francs.

Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. For many Group companies, income is generated primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale and interest on, and repayment of, loans are in foreign currencies. Similarly, transaction exposure arises on net balances of monetary assets held in foreign currencies. Group companies manage this exposure at a local level, if necessary, by means of derivative financial instruments such as options and forward contracts. In addition, Group Treasury monitors total world-wide exposure with the help of comprehensive data received on a monthly basis.

Translation exposure arises from the consolidation of the foreign currency denominated financial statements of the Group's foreign subsidiaries. The effect on the Group's consolidated equity is shown as a currency translation difference.

Specific measures to manage the foreign exchange risk arising on the expected acquisition of Quest International are described in note 4.

Interest rate risk

Interest rate risk arises from movements in interest rates which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments as described in the following section on market risk.

Group companies manage their short-term interest rate risk locally, if necessary by means of derivative financial instruments such as interest rate swaps. Furthermore, the consolidated interest rate risk is monitored by Group Treasury on a world-wide level.

Specific measures to manage the interest rate risk arising on the financing of the expected acquisition of Quest International are described in note 4.

Market risk

Changes in the market value of certain financial assets, liabilities and instruments can affect the net income or financial position of the Group. The risk of loss in value is assessed by a very careful review prior to investing, diversification of assets and continuous monitoring of the performance of investments and changes in their risk configuration. The Group makes use of derivative financial instruments to manage risks on available-for-sale investments and debt instruments.

Credit risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations, causing a financial loss to the Group.

Trade receivables are subject to a policy of active risk management which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and account monitoring procedures. Collateral is generally not required. There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

Liquidity risk

Group companies must have sufficient availability of cash to meet their obligations. Individual companies are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies, guidelines and guidance.

4. Business Combinations – agreement to acquire Quest International

On 22 November 2006, the Group signed an agreement with UK-based Imperial Chemical Industries PLC to acquire its fragrance and flavour business, Quest International, for GBP 1.2 billion or around CHF 2.8 billion. In 2006, the financial effects of this planned transaction are limited to certain hedging transaction charges and balance sheet movements, deferred expenses, and cash received from the sale of the shares bought under the buy back programme.

We expect this transaction to close in the first half of 2007.

In addition to the overall commitment to acquire Quest International, the agreement affects the Group financial statements in the following areas:

- Transaction costs

All costs directly attributable to the future business combination, such as legal fees, due diligence costs and other consultant fees, have been deferred in the balance sheet. The total cost amounted to CHF 3 million.

- Financial instruments

a) *Expected future purchase of Quest International*
The cash payment of GBP 1.2 billion to Imperial Chemical Industries PLC is expected to occur during the first half of 2007. This firm commitment has been hedged through a contingent forward foreign exchange contract on 28 November 2006 in order to cover the Group from foreign exchange rate fluctuation against the Swiss franc.

The specific date of the purchase cannot yet be determined, due to the need for regulatory approval of the acquisition. The non contingent component of the contract, which is used to hedge the GBP currency risk exchange rate, has been desgnated as a cash flow hedge and is deferred in equity until settlement whereas the contingent component is recorded in the consolidated income statement.

The hedge has been highly effective for the period ended 31 December 2006 and is expected to be highly effective until settlement. At 31 December 2006, a net unrealised gain of CHF 54 million related to the hedge was included in equity and a charge of CHF 15 million related to the contingent component was included in the consolidated income statement in respect of this contract.

b) *Expected future interest payments of debt to be issued*
The Group will issue debt to partially finance the purchase of Quest International and the payment of future interest has been partly hedged in order to cover the Group from any interest rate fluctuations.

The Group entered into two contingent forward starting swaps on 21 December 2006 to partly cover the interest rate risk of a firm commitment to pay a series of 10 highly probable forecast interest payment on a syndicated loan. The specific date of the issuance cannot be yet determined, due to the need for regulatory approval of the acquisition.

The terms of the contingent forward starting swaps are as follows.

Notional	CHF 300 million
Maturity	28 February 2012
Receive	CHF 6 months LIBOR
Pay	2.74%

Notional	CHF 500 million
Maturity	27 February 2012
Receive	CHF 6 months LIBOR
Pay	2.82%

The non contingent component of the contingent forward starting swaps, which is used to hedge the interest risk on the debt to be issued has been designated as a cash flow hedge and is deffered in equity until the debt issuance whereas the contingent component is recorded in the consolidated income statement.

The hedges have been highly effective for the period ended 31 December 2006 and are expected to be highly effective until settlement. At 31 December 2006, a net unrealised loss of CHF 2 million related to the hedges, with a related deferred tax credit of CHF 82 thousand, was included in equity, and a charge of CHF 3 million related to the contingent component was included in the consolidated income statement in respect of these contracts.

c) Loan and facility commitment
The Group received a GBP 1.2 billion commitment to provide financing of the acquisition.

d) Share buy back programme
Under the terms of the third share buy back programme, shares acquired can be used to finance an acquisition.

The 133,800 shares purchased under the third share buy back programme have been resold resulting in a restricted cash balance of CHF 141 million within the line cash and cash equivalents in the consolidated balance sheet. Any income on this balance is in turn restricted.

5. Segment information

The Group's world-wide operations are organised into two operating divisions,

Fragrances Manufacture and sale of fragrances into three global business units: Fine Fragrances, Consumer Products and Fragrance Ingredients, and

Flavours Manufacture and sale of flavours into four business units: Beverages, Dairy, Savoury and Sweet Goods.

These divisions are the basis upon which the Group reports its primary segment information.

The secondary format is based on geographical segmentation. The business segments operate in five main geographical areas, namely Switzerland, other EAME (Other Europe, Africa and Middle East), USA and Canada, Latin America and Asia Pacific.

Business segments

in millions of Swiss francs	Fragrances		Flavours		Group	
	2006	2005	2006	2005	2006	2005
Segment sales	1,233	1,140	1,690	1,649	2,923	2,789
Less inter-divisional sales [a]	(10)	(9)	(4)	(2)	(14)	(11)
▶ Segment sales to third parties	1,223	1,131	1,686	1,647	2,909	2,778
EBITDA [b]	239	203	389	437	628	640
as % of sales	*19.5%*	*17.9%*	*23.1%*	*26.5%*	*21.6%*	*23.0%*
Depreciation	(43)	(41)	(48)	(46)	(91)	(87)
Amortisation	(1)	(1)	(18)	(18)	(19)	(19)
Impairment of long-lived assets			(4)	(21)	(4)	(21)
▶ Operating profit	195	161	319	352	514	513
as % of sales	*15.9%*	*14.2%*	*18.9%*	*21.4%*	*17.7%*	*18.5%*
Additions to restructuring provisions			6	1	6	1
Reversal of unused restructuring provisions		(2)	-	(1)		(3)
Operating assets [c]	1,022	980	2,469	2,538	3,491	3,518
Unallocated assets [d]					1,209	998
▶ Consolidated total assets					4,700	4,516
Operating liabilities [c]	(61)	(53)	(47)	(57)	(108)	(110)
Unallocated liabilities [d]					(1,796)	(1,969)
▶ Consolidated total liabilities					(1,904)	(2,079)
▶ Capital expenditures [e]	51	55	94	106	145	161
▶ Number of employees	2,566	2,505	3,490	3,419	6,056	5,924

a) *Transfer prices for inter-divisional sales are set on an arm's length basis.*

b) *EBITDA: Earnings Before Interest (and other financial income), Tax, Depreciation and Amortisation. This corresponds to operating profit before depreciation, amortisation and impairment of long-lived assets.*

c) *Operating assets consist primarily of property, plant and equipment, intangibles, inventories and receivables. Segment operating liabilities consist of trade accounts payable and notes payable.*

d) *Unallocated assets and liabilities mainly include current and deferred income tax balances, and financial assets and liabilities, principally cash, investments and debt.*

e) *Capital expenditures include additions to property, plant and equipment and to intangible assets, excluding acquisitions of subsidiaries.*

Geographical segments

in millions of Swiss francs	Segment sales [a]		Segment net operating assets [b]		Capital expenditures [c]	
	2006	2005	2006	2005	2006	2005
Switzerland	42	42	1,070	1,055	45	46
Other EAME	1,050	996	513	482	22	31
USA and Canada	916	902	1,254	1,332	49	56
Latin America	328	290	164	158	9	8
Asia Pacific	573	548	382	381	20	20
▶ Total	2,909	2,778	3,383	3,408	145	161

a) Sales are shown by destination.

b) Operating assets consist primarily of property, plant and equipment, intangibles, inventories and receivables. Segment operating liabilities consist of trade accounts payable and notes payable.

c) Capital expenditures include additions to property, plant and equipment and to intangible assets, excluding acquisitions of subsidiaries.

6. Marketing, development and distribution expenses

Expenses for product development and research activities in 2006 amounted to CHF 246 million (2005: CHF 220 million) and are included in the consolidated income statement under marketing, development and distribution expenses.

7. Employee benefits

The following amounts related to employee remuneration and benefits are included in determining operating profit:

in millions of Swiss francs	2006	2005
Wages and salaries	549	508
Social security costs	71	66
Post-employment benefits: defined benefit plans	35	37
Post-employment benefits: defined contribution plans	11	6
Equity-settled instruments granted to Directors and executives	6	5
Cash-settled instruments granted to Directors and executives	29	17
Other employee benefits	44	46
▶ Total employees' remuneration	745	685

At the year-end, the Group employed 6,056 people (2005: 5,924).

Defined benefits plans

The amounts recognised in the consolidated income statement are as follows:

in millions of Swiss francs	Defined benefit plans		Non-pension post-employment plans	
	2006	2005	2006	2005
Current service cost	29	28	2	2
Interest cost	47	46	4	4
Expected return on plan assets	(55)	(49)		
Net actuarial (gains) losses recognised	6	5	2	1
▶ Total included in employees' remuneration	27	30	8	7

Non-pension post-employment benefits consist primarily of post-retirement healthcare and life insurance schemes, principally in the USA.

The amounts recognised in the balance sheet are as follows:

in millions of Swiss francs	Defined benefit plans		Non-pension post-employment plans	
	2006	2005	2006	2005
Present value of funded obligations	(1,170)	(1,165)		
Fair value of plan assets	1,060	1,031		
	(110)	(134)		
Unrecognised actuarial (gains) losses	113	128		
Recognised asset (liability) for funded obligations, net	3	(6)		
Present value of unfunded obligations	(39)	(40)	(80)	(92)
Unrecognised actuarial (gains) losses	10	13	20	33
Recognised (liability) for unfunded obligations	(29)	(27)	(60)	(59)
▶ Total defined benefit liability	(26)	(33)	(60)	(59)
Deficit recognised as liabilities for post-employment benefits	(46)	(60)	(60)	(59)
Surplus recognised as part of other long-term assets	20	27		
▶ Total net asset (liability) recognised	(26)	(33)	(60)	(59)

Amounts recognised in the balance sheet for post-employment defined benefit plans are predominantly non-current and are reported as non-current assets and non-current liabilities.

Changes in the present value of the defined benefit obligation are as follows:

in millions of Swiss francs	Defined benefit plans		Non-pension post-employment plans	
	2006	2005	2006	2005
▶ Balance at 1 January	1,205	1,077	92	69
Net current service cost	29	28	2	2
Interest cost	47	46	4	4
Employee contributions	8	8		
Benefit payment	(53)	(43)	(3)	(4)
Curtailments		(4)	(3)	
Actuarial (gains) losses	(11)	49	(6)	10
Currency translation effects	(16)	44	(6)	11
▶ Balance at 31 December	1,209	1,205	80	92

The effect of a 1% movement in the assumed medical cost trend rate is as follows:

in millions of Swiss francs	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	1	(1)
Effect on the defined benefit obligation	11	(9)

Changes in the fair value of the plan assets are as follows:

in millions of Swiss francs	Defined benefit plans		Non-pension post-employment plans	
	2006	2005	2006	2005
▶ Balance at 1 January	1,031	898	-	
Expected return on plan assets	55	49		
Actuarial gains (losses)	(3)	61		
Employer contributions	33	26	3	4
Employee contributions	8	8		
Benefit payment	(53)	(43)	(3)	(4)
Currency translation effects	(11)	32		
▶ Balance at 31 December	1,060	1,031	-	-

The actual return on plan assets is CHF 52 million (2005: CHF 110 million)

The plan assets do not include Givaudan registered shares (2005: 522 shares for an amount of CHF 0.5 million). They do not include any property occupied by, or other assets used by, the Group.

currency amounts in millions of Swiss francs	2006		2005	
Debt	414	39%	432	42%
Equity	395	37%	375	36%
Other	251	24%	224	22%
Total	1,060	100%	1,031	100%

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to post-employment benefit plans for the year ending 31 December 2007 are CHF 33 million.

in millions of Swiss francs	2006	2005
Present value of defined benefit obligations	1,289	1,297
Fair value of plan assets	1,060	1,031
Deficit / (surplus)	229	266
Experience adjustments on plan liabilities	6	
Experience adjustments on plan assets	(3)	

The Group operates defined benefit plans in many countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the most significant defined benefit plans, in countries with stable currencies and interest rates, were as follows:

Weighted percentage	2006	2005
Discount rates	4.2%	4.1%
Projected rates of remuneration growth	2.4%	2.4%
Expected rates of return on plan assets	5.4%	5.4%
Healthcare cost trend rate	4.8%	4.8%

The overall discount rate and the overall projected rates of remuneration growth is calculated by weighting the individual rates in accordance with the defined benefit obligation of the plans. The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the respective Stock Exchange of each country where assets are managed. The overall expected rate of return is calculated by weighting the individual rates in accordance with the assets allocation of the plans.

During 2005, the Group's Japanese subsidiary withdrew its participation in the Tokyo Cosmetics Fund, a multi-employer plan. The related cost of CHF 4 million has been expensed in the income statement recorded at the time of the withdrawal.

8. Share-based payment

Equity-settled instruments

Share options shown in the table below have been granted on a yearly basis. These options are tradable and transferable after the vesting period. The fair value of the options granted are based on market prices taking into account their respective terms and conditions upon which those equity instruments were granted. Participation in these plans is mandatory.

Share options outstanding at the end of the year have the following terms:

Year of grant	Maturity date	Vesting date	Strike price [a] (CHF)	Ratio (option: share)	Option value at grant date (CHF)	Number of options 2006	Number of options 2005
2001	20 Feb 2006	19 Feb 2004	506.3	100:1	1.012		25,000
2002	29 Jan 2007	28 Jan 2005	575.0	10:1	8.120	2,200	65,100
2003	17 Mar 2008	17 Mar 2005	509.7	10:1	5.670	42,700	88,600
2004	18 Mar 2009	18 Mar 2006	656.4	10:1	10.870	86,500	532,200
2005	21 Mar 2010	21 Mar 2007	805.0	10:1	10.740	522,100	522,100
2006	07 Mar 2011	06 Mar 2008	1,050.0	10:1	12.070	486,000	

a) Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.

The cost of the equity-settled instruments of CHF 6 million (2005: CHF 5 million) has been expensed in the income statement.

Movements in the number of share options outstanding, expressed in equivalent shares, are as follows:

Number of options expressed in equivalent shares	2006	2005
▶ At 1 January	121,050	141,325
Granted	48,600	52,710
Sold	(55,700)	(71,275)
Lapsed		(1,710)
▶ At 31 December	113,950	121,050

For these plans, the Group has at its disposal either treasury shares or conditional share capital up to an amount of CHF 0,7 million representing 67,840 registered shares with a par value of CHF 10 per share. When held or sold, an option does not give rights to receive a dividend nor to vote.

Cash-settled instruments

Option rights shown in the table below have been granted on a yearly basis. The liability of the option rights, together with a corresponding adjustment in expenses, is measured, over the vesting period, initially and at balance sheet date until settled, at market value. The market value is based on market prices of similar observable instruments available on the financial market, as a rule the market price of the equity-settled instruments with identical terms and conditions upon which those equity instruments were granted. These rights are not tradable and transferable after the vesting period. Participation in these plans is mandatory.

Year of grant	Maturity date	Vesting date	Strike price [a] (CHF)	Ratio (option: share)	Option value at grant date (CHF)	Number of options 2006	Number of options 2005
2001	20 Feb 2006	19 Feb 2004	506.3	100:1	1.012		133,000
2002	29 Jan 2007	28 Jan 2005	575.0	10:1	8.120	12,850	55,250
2003	17 Mar 2008	17 Mar 2005	509.7	10:1	5.670	38,790	117,500
2004	18 Mar 2009	18 Mar 2006	656.4	10:1	10.870	114,800	485,100
2005	21 Mar 2010	21 Mar 2007	805.0	10:1	10.740	544,700	540,700
2006	07 Mar 2011	06 Mar 2008	1,050.0	10:1	12.070	550,800	

a) Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.

The cost of the cash-settled instruments of CHF 29 million (2005: CHF 17 million) has been expensed in the income statement. The liability regarding the cash-settled instruments of CHF 32 million (2005: CHF 22 million) has been recognised in the balance sheet.

Movements in the number of options rights outstanding, expressed in equivalent shares, are as follows:

Number of options expressed in equivalent shares	2006	2005
▶ At 1 January	121,185	132,000
Granted	55,700	54,580
Exercised	(49,891)	(62,485)
Lapsed	(800)	(2,910)
▶ At 31 December	126,194	121,185

For these plans, the Group has at its disposal treasury shares. When held or sold, an option right does not give rights to receive a dividend nor to vote.

9. Other operating (income) expenses, net

in millions of Swiss francs	2006	2005
Restructuring expenses	6	(2)
Impairment of long-lived assets	4	21
(Gains) losses on fixed assets disposals	(16)	1
Business related information management projects costs	13	13
Butter flavours litigation case settlement	44	
Other business taxes	12	12
Other (income) expenses, net	(4)	12
▶ Total	59	57

Following site consolidation and product streamlining in the USA, an asset impairment of CHF 16 million was recognised in 2005 to the line other operating (income) expenses, net. Additional asset impairments of CHF 4 million and restructuring costs of CHF 6 million were recognised in 2006 to the line other operating (income) expenses, net. See also Note 17 on property, plant and equipment and Note 21 on provisions.

As communicated on 4 August 2006, Givaudan achieved an out of court full and final settlement with 51 plaintiffs involved in the US butter flavour litigation. The net impact recorded in the 2006 income statement was CHF 44 million. Approximately CHF 24 million (USD 20 million) is still under discussion with insurers and Givaudan pursues the recovery of this amount.

In the year ended 31 December 2006, a one time income of CHF 18 million was recognised as a result of a net gain on disposal of land in Switzerland.

10. Financial income and finance costs

Finance costs

in millions of Swiss francs	2006	2005
Fair value and realised (gains) losses from interest rate derivatives, net	(2)	6
Interest expense	46	64
Amortisation of discount on debt instruments	-	1
▶ Total	44	71

Other financial (income) expenses, net

in millions of Swiss francs	2006	2005
(Gains) losses from available-for-sale financial assets, net	(22)	(27)
Interest income	(6)	(7)
Dividend income	(1)	(1)
Impairment of available-for-sale financial assets	1	
Fair value and realised (gains) losses from derivative instruments, net	(5)	21
Fair value and realised (gains) losses from own equity instruments, net	(27)	(15)
Exchange (gains) losses, net	14	(27)
Other (income) expenses, net	8	11
▶ Total	(38)	(45)

11. Income taxes

Amounts charged (credited) in the income statement are as follows:

in millions of Swiss francs	2006	2005
Current income taxes	108	91
Adjustments of current tax of prior years	(7)	3
Deferred income taxes	(6)	(14)
▶ Total income tax expenses	95	80

Since the Group operates globally, it is liable for income taxes in many different tax jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Differences between the final tax outcome and the amounts that were initially recorded impact the income and deferred taxes in the period in which such determinations are made.

The Group calculates its average expected tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates.

The Group's effective tax rate differs from the Group's average expected tax rate as follows:

	2006	2005
Group's average expected tax rate	19%	19%
Tax effect of		
- Income not taxable		
- Expenses not deductible	1%	
- Other differences	(1)%	(3)%
▶ Group's effective tax rate	19%	16%

The variation in the Group's average expected tax rate is caused by changes in volumes, product mix and profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in local statutory tax rates.

The low Group's effective tax rate for 2005 was due to an exceptional inter-company transaction that generated a one time impact of CHF 13 million.

Income tax assets and liabilities

Amounts recognised in the balance sheet related to income taxes are as follows:

Current income taxes

in millions of Swiss francs	2006	2005
Current income tax assets	5	12
Current income tax liabilities	(43)	(43)
▶ Net current income tax asset (liability)	(38)	(31)

Deferred income taxes

in millions of Swiss francs	2006	2005
Deferred income tax assets	116	110
Deferred income tax liabilities	(101)	(92)
▶ Net deferred income tax asset (liability)	15	18

Amounts recognised in the balance sheet for deferred taxes are reported as non-current assets and non-current liabilities, a portion of which is current and will be charged or credited to the income statement during 2007.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Group has no material unrecognised tax losses. Deferred income tax liabilities have not been established for withholding tax and other taxes that would be payable on the un-remitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested.

Deferred income tax assets and liabilities and the related deferred income tax charges are attributable to the following items:

in millions of Swiss francs – 2006	Property, plant & equipment	Intangible assets	Pension plans	Other temporary differences	Total
Net deferred income tax asset at 1 January	(69)	21	48	18	18
Credited (charged) to income statement	1	(5)	9	1	6
Credited (debited) to equity				2	2
Currency translation effects	6	(1)	(3)	(13)	(11)
▶ Net deferred income tax asset (liability) at 31 December	(62)	15	54	8	15

in millions of Swiss francs – 2005	Property, plant & equipment	Intangible assets	Pension plans	Other temporary differences	Total
Net deferred income tax asset at 1 January	(59)	26	40	(4)	3
Credited (charged) to income statement	1	(10)	1	22	14
Credited (debited) to equity					-
Currency translation effects	(11)	5	7	-	1
▶ Net deferred income tax asset (liability) at 31 December	(69)	21	48	18	18

12. Minority interest

Minority interest represents the interests of third-party shareholders in the net results of the operations and the net assets of the subsidiary in Thailand which is not fully owned by Givaudan, either directly or indirectly.

13. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the result attributable to equity holders of the parent by the weighted average number of shares outstanding.

	2006	2005
Result attributable to equity holders of the parent (CHF million)	412	406
Weighted average number of shares outstanding		
Ordinary shares	*7,321,872*	*7,612,603*
Treasury shares	*(293,887)*	*(436,031)*
	7,027,985	7,176,572
▶ Earnings per share – basic (CHF)	58.62	56.57

Diluted earnings per share

For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted to assume conversion of all dilutive potential shares.

	2006	2005
Result attributable to equity holders of the parent (CHF million)	412	406
Weighted average number of shares outstanding adjusted for executives share options plans of 48,106 (2005: 52,020)	7,076,091	7,228,592
▶ Earnings per share – diluted (CHF)	58.22	56.17

14. Available-for-sale financial assets

in millions of Swiss francs	2006	2005
Equity securities [a]	193	187
Bonds and debentures	230	249
▶ Total available-for-sale financial assets	423	436
Current assets	261	285
Non-current assets	162	151
▶ Total available-for-sale financial assets	423	436

a) In 2006 and 2005 no equity securities were restricted for sale

15. Accounts receivable – trade

in millions of Swiss francs	2006	2005
Accounts receivable	488	479
Notes receivable	7	6
Less: allowance for doubtful accounts	(10)	(14)
▶ Total accounts receivable – trade	485	471

No significant impairment charge has been recorded in the income statement in 2006 or 2005.

16. Inventories

in millions of Swiss francs	2006	2005
Raw materials and supplies	304	306
Work in process	23	22
Finished goods	231	240
Less: allowance for slow moving and obsolete inventories	(23)	(20)
▶ Total inventories	535	548

At year-end 2006 and 2005 no significant inventory was valued at net realisable value.

17. Property, plant and equipment

in millions of Swiss francs – 2006	Land	Buildings and building improvements	Machinery, equipment and vehicles	Construction in progress	Total
Net book value					
▶ Balance at 1 January	60	488	486	96	1,130
Additions		3	22	120	145
Disposals	(2)	(3)	(3)	(5)	(13)
Transfers	2	56	91	(149)	
Impairment	(1)	(2)	(1)		(4)
Depreciation		(19)	(72)		(91)
Currency translation effects	(1)	(15)	(9)	(2)	(27)
▶ Balance at 31 December	58	508	514	60	1,140
Cost	59	812	1,282	60	2,213
Accumulated depreciation		(289)	(753)		(1,042)
Accumulated impairment	(1)	(15)	(15)		(31)
▶ Balance at 31 December	58	508	514	60	1,140

in millions of Swiss francs – 2005	Land	Buildings and building improvements	Machinery, equipment and vehicles	Construction in progress	Total
Net book value					
▶ Balance at 1 January	56	454	452	66	1,028
Additions		6	24	131	161
Disposals		(1)	(9)		(10)
Transfers		28	78	(106)	
Impairment		(14)	(17)		(31)
Depreciation		(16)	(71)		(87)
Currency translation effects	4	31	29	5	69
▶ Balance at 31 December	60	488	486	96	1,130
Cost	60	777	1,206	96	2,139
Accumulated depreciation		(275)	(703)		(978)
Accumulated impairment		(14)	(17)		(31)
▶ Balance at 31 December	60	488	486	96	1,130

The decision to undertake a restructuring programme in the USA to consolidate its flavour operating asset base and to streamline its Savoury product portfolio indicated the need to conduct an impairment test on the related assets. The test for impairment resulted in an impairment loss of CHF 4 million being recognised in the consolidated financial statements, in addition to the CHF 16 million that were accrued in 2005.

At year-end, the Group had operating lease commitments for the following future minimum payments under non-cancellable operating leases:

in millions of Swiss francs	2006	2005
Within one year	11	10
Within two to five years	23	21
Thereafter	22	28
▶ Total minimum payments	56	59

The total rental for all operating leases was CHF 29 million (2005: CHF 30 million).
The Group has capital commitments for the purchase or construction of property, plant and equipment totalling CHF 32 million (2005: CHF 31 million).

18. Intangible assets

in millions of Swiss francs – 2006	Goodwill	Intellectual property rights	Process-oriented technology and other	ERP system	Total
Net book value					
▶ Balance at 1 January	1,079	277	13		1,369
Additions				24	24
Disposals					
Impairment					
Amortisation		(17)	(2)		(19)
Currency translation effects	(42)		(1)		(43)
▶ Balance at 31 December	1,037	260	10	24	1,331
Cost	1,037	339	16	24	1,416
Accumulated amortisation		(79)	(6)		(85)
▶ Net book value at 31 December	1,037	260	10	24	1,331

in millions of Swiss francs – 2005	Goodwill	Intellectual property rights	Process-oriented technology and other	ERP system	Total
Net book value					
▶ Balance at 1 January	981	294	13		1,288
Additions					
Disposals					
Impairment					
Amortisation		(17)	(2)		(19)
Currency translation effects	98		2		100
▶ Balance at 31 December	1,079	277	13		1,369
Cost	1,079	339	17		1,435
Accumulated amortisation		(62)	(4)		(66)
▶ Net book value at 31 December	1,079	277	13		1,369

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the division of the primary segment, respectively CHF 3 million (2005: CHF 3 million) for the fragrance division and CHF 1,034 million (2005: CHF 1,076 million) for the flavour division.

The recoverable amount of the fragrance division has been determined based on value in use calculations. These calculations use cash flow projections based on financial business plans and budgets approved by management covering a five-year period, plus a five year extrapolation and a terminal value.
The basis of the key assumptions is market growth adjusted for estimated market share gains. Operating costs are based on past performance adjusted for expected efficiency improvements. The discount rate applied to cash flow projections is pre-tax and reflects specific risks relating to the Group and was determined at 8.3%.

The recoverable amount of the flavour division has been determined based on value in use calculations. These calculations use cash flow projections based on financial business plans and budgets approved by management covering a five-year period, plus a five year extrapolation and a terminal value.
The basis of the key assumptions is market growth adjusted for estimated market share gains. Operating costs are based on past performance adjusted for expected efficiency improvements. Cash flows beyond the five-year period are extrapolated using a 2.5% rate representing the expected market growth rate in the flavours industry. The discount rate applied to cash flow projections is pre-tax and reflects specific risks relating to the Group and was determined at 8.2%.

No impairment loss resulted from the impairment tests for goodwill.

Intellectual property rights

As part of the acquisition of Food Ingredients Specialties (FIS), the Group acquired intellectual property rights predominantly consisting of know-how being inseparable processes, formulas and recipes. The remaining amortisation period of the intellectual property rights is 15 years.

Process-oriented technology and other

This consists mainly to process-oriented technology acquired when the Group purchased IBF. The remaining amortisation period of the process-oriented technology is 11 years.

Internally generated intangible assets

This consists of the future Givaudan ERP system development costs incurred since September 2006.

19. Debt

in millions of Swiss francs – 2006	within two to three years	within four to five years	thereafter	Total long-term	Short-term within one year	Total
Amounts due to banks and other financial institutions	16			16	189	205
Private placements	129	79	454	662		662
Straight bond			297	297		297
▶ Total debt at 31 December	145	79	751	975	189	1,164

in millions of Swiss francs – 2005	within two to three years	within four to five years	thereafter	Total long-term	Short-term within one year	Total
Amounts due to banks and other financial institutions	2			2	190	192
Private placements	40	136	527	703		703
Straight bond			297	297		297
▶ Total debt at 31 December	42	136	824	1,002	190	1,192

At year-end, the fair value of long-term debt was CHF 970 million (2005: CHF 1,005 million). The fair value calculation of the debt is based on published price quotations in active markets for debt instruments.

On 29 December 2000, the Group issued a 4.25% straight bond 2000-2005 with a nominal value of CHF 300 million. It was redeemed on 29 December 2005.

On 7 June 2001 the Group issued a 1% exchangeable bond with a principal amount of USD 200 million made of 200,000 bonds of USD 1,000 denomination. The Group requested an early redemption which resulted to the exchange of all remaining bonds corresponding to 156,642 bonds (2004: 43,327 bonds converted) during 2005.

On 7 February 2003, the Group entered into a private placement for a total amount of CHF 50 million. The private placement was made by Givaudan SA. It is redeemable in 2009 with an annual interest rate of 2.9%.

On 28 May 2003, the Group entered into a private placement for a total amount of USD 220 million (equivalent to CHF 285 million). The private placement was made by Givaudan United States, Inc. It is redeemable by instalments at various times beginning on May 2008 through May 2015 with annual interest rates ranging from 3.65% to 5.00%. There are various covenants contained in the transaction covering conditions on net worth, indebtedness and disposition of assets of Givaudan United States, Inc. Until now, Givaudan United States, Inc has been fully in compliance with the covenants set.

On 9 July 2003, the Group entered into a private placement for a total amount of CHF 100 million. The private placement was made by Givaudan SA. It is redeemable in 2013 with an annual interest rate of 3.3%.

On 16 April 2004, the Group entered into a private placement for a total amount of USD 200 million (equivalent to CHF 259 million). The private placement was made by Givaudan United States, Inc. It matures at various times in instalments beginning May 2009 through May 2016 with annual interest rates ranging from 4.16% to 5.49%. There are various covenants contained in the transaction covering conditions on net worth, indebtedness and disposition of assets of Givaudan United States, Inc. Until now, Givaudan United States, Inc has been fully in compliance with the covenants set.

On 11 May 2005, the Group issued a 2.25% straight bond 2005-2012 with a nominal value of CHF 300 million. The bond was issued by Givaudan Finance SA and is guaranteed by Givaudan SA (holding company).

The carrying amounts of the Group's debt are denominated in the following currencies:

in millions of Swiss francs	2006	2005
Swiss Francs	447	447
US Dollars	572	601
Euro	32	39
Other currencies	113	105
▶ Total debt at 31 December	1,164	1,192

The weighted average effective interest rates at the balance sheet date were as follows:

	2006	2005
Amounts due to banks and other financial institutions	4.7%	3.1%
Private placements	4.5%	4.5%
Straight bond	2.3%	2.3%

20. Derivative financial instruments

In appropriate circumstances the Group uses derivative financial instruments as part of its risk management and trading strategies. This is discussed in the financial risk management section in Note 3 to the consolidated financial statements.

The fair value of derivative financial instruments held by the Group are as follows:

in millions of Swiss francs	*Note*	2006		2005	
		Assets	Liabilities	Assets	Liabilities
Foreign currency derivatives					
- forward foreign exchange contracts		2	(1)		(1)
- contingent forward foreign exchange contract – cash flow hedge	4	38			
- options			(1)		(1)
Interest rate derivatives					
- swaps			(1)		(2)
- forward starting swaps					(9)
- contingent forward starting swaps – cash flow hedges	4		(4)		
Other derivatives					
- options on equity securities					
- derivatives on debt securities		22		10	
▶ Total derivative financial instruments		62	(7)	10	(13)

Foreign currency derivatives other than those designated as cash flow hedges are entered into for the purchase of currencies to settle liabilities within the Group.

In 2004, Givaudan entered into an interest rate swap contract with a notional principal value of CHF 300 million to convert the straight bond 2000 - 2005 with a nominal value of CHF 300 million from a 4.25% fixed rate bond to a floating rate bond bearing interest at Libor plus 3.2%. This interest rate swap contract has been closed during 2005.

In 2004, Givaudan entered into forward starting swap contracts with a notional principal value totalling CHF 400 million at a rate of 3.0%, for the period from 15 December 2005 to 15 December 2010. These interest rate swap contracts have been closed during 2005.

In 2005, Givaudan entered into a forward starting swap contract with a notional principal value totalling CHF 300 million at a rate of 3.0%, for the period from 30 November 2006 to 30 November 2011. This forward starting swap contract has been closed during 2006.

The notional principal amounts of the other outstanding interest rate swap contracts at 31 December 2006 were JPY 500 million (equivalent to CHF 5 million) (2005: JPY 500 million equivalent to CHF 4.6 million) and USD 40 million (equivalent to CHF 49 million) (2005: USD 40 million equivalent to CHF 53 million). For the JPY swap contract, the fixed interest rates paid in 2006 was 2.0% (2005: 2.0%) and the average floating rate received was 0.3% (2005: 0.1%). For the USD swap contracts, the fixed interest rates paid in 2006 was from 4.8% to 5.1% (2005: 4.8% to 5.1%) and the average floating rate received was 5.3% (2005: 3.3%).

During the last quarter of 2006, the Group entered into a contingent forward foreign exchange contract and two contingent interest forward starting swaps in relation to the agreement to acquire Quest international (see note 4 on Business combination – agreement to acquire Quest International).

21. Provisions

in millions of Swiss francs – 2006	Restructuring from FIS acquisition	Restructuring	Claims and litigation	Others	Total
▶ Balance at 1 January	1	9	18	23	51
Additional provisions		6	6	7	19
Unused amounts reversed		-	(5)	(2)	(7)
Utilised during the year	(1)	(7)	(4)	(5)	(17)
Currency translation effects		-	-	(1)	(1)
▶ Balance at 31 December		8	15	22	45
Current liabilities		3	3	4	10
Non-current liabilities		5	12	18	35
▶ Balance at 31 December		8	15	22	45

in millions of Swiss francs – 2005	Restructuring from FIS acquisition	Restructuring	Claims and litigation	Others	Total
▶ Balance at 1 January	1	52	16	4	73
Additional provisions		1	4	21	26
Unused amounts reversed		(3)	(4)	-	(7)
Utilised during the year		(42)	-	(2)	(44)
Currency translation effects		1	2	-	3
▶ Balance at 31 December	1	9	18	23	51
Current liabilities		8	3	5	16
Non-current liabilities	1	1	15	18	35
▶ Balance at 31 December	1	9	18	23	51

Significant judgement is required in determining the various provisions. A range of possible outcomes are determined to make reliable estimates of the obligation that is sufficient for the recognition of a provision. Differences between the final obligations and the amounts that were initially recorded, impact the income statement in the period which such determination is made.

Restructuring provisions from FIS (Food Ingredients Specialties) acquisition

Provisions for the FIS acquisition have been recognised for compensating FIS employees for terminating of their employment and closing FIS facilities.

Restructuring provisions

Restructuring provisions arise from re-organisations of the Group's operations and management structure. They include a large restructuring programme commenced in 2003 and extended until 2006 by the Group. Refer to Note 9 other operating (income) expense, net.

Claims and litigation

These provisions are made in respect of legal claims brought against the Group and potential litigations. Related estimated legal fees are also included in these provisions.

Other provisions

These consist largely of provisions for environmental and similar matters.

22. Own equity instruments

Details on own equity instruments are as follows:

31 December 2006	Settlement	Category	Maturity	Strike price[a] (CHF)	In equivalent shares	Fair value in millions CHF
Registered shares	n/a	Equity	n/a	n/a	173,512	196
Written calls	Gross shares	Equity	2007-2011	575.00-1,050.00	335,875	124
Purchased calls	Gross shares	Equity	2007-2009	509.70-656.40	900	-
Purchased calls	Net cash	Derivative	2008-2011	509.70-1,050.00	128,829	42

a) Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.

31 December 2005	Settlement	Category	Maturity	Strike price[a] (CHF)	In equivalent shares	Fair value in millions CHF
Registered shares	n/a	Equity	n/a	n/a	257,952	230
Written calls	Gross shares	Equity	2007-2010	509.70-805.00	360,100	100
Purchased calls	Gross shares	Equity	2006	510.32-628.13	100,590	30
Purchased calls	Net cash	Derivative	2006-2010	506.30-805.00	171,060	45
Written puts	Gross shares	Financial liability	2006	510.32-628.13	252,427	-

a) Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.

23. Equity

Share capital

At 31 December 2006, the share capital amounts to CHF 72,321,600 divided into 7,232,160 fully paid-up registered shares with a nominal value of CHF 10 each. Every share gives the right to one vote.

The Board of Directors has at its disposal conditional capital of a maximum aggregate amount of CHF 10,000,000 that may be issued through a maximum of 1,000,000 registered shares, of which a maximum of CHF 1,000,000 can be used for executive share options plans. The Board of Directors was authorised until 16 April 2006 to increase the share capital by up to CHF 10,000,000 through the issuance of a maximum of 1,000,000 fully paid-in registered shares with a par value of CHF 10 per share. At the Annual General Meeting on 7 April 2006, the shareholders approved the extension of the existing authorised capital of CHF 10,000,000 until 7 April 2008. On 6 April 2006, 32,160 shares were issued as conditional capital in order to fulfil obligations relating to the executive share option plans.

On 30 June 2003, the Group started a share buy back programme that was originally planned to last until 30 June 2004. On 14 June 2004, the Board of Directors resolved to extend this programme until 30 June 2005. The Group intended to reduce its share capital of 8,000,000 to 7,200,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 800,000 registered shares (representing 10% of the share capital, before the issuance of shares from the conditional capital on 6 April 2006) was made through a second trading line on virt-x. On 3 May 2005, the Group had completed its second share buy back programme with the repurchase of 800,000 registered shares over a second trading line on virt-x. At the Annual General Meeting on 16 April 2004, the shareholders agreed with the cancellation of 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.5%, from CHF 80,000,000 to CHF 78,000,000. The cancellation became effective on 5 July 2004. At the Annual General Meeting on 27 April 2005, the shareholders agreed with the cancellation of a further 400,000 repurchased shares and with the corresponding reduction of the share capital by 5.1%, from CHF 78,000,000 to CHF 74,000,000. The cancellation became effective on 14 July 2005. At the Annual General Meeting on 7 April 2006, the shareholders agreed with the cancellation of a further 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.7%, from CHF 74,000,000 to CHF 72,000,000. The cancellation became effective on 26 June 2006.

On 6 May 2005, the Group started a further share buy back programme that should have lasted until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. The Group intended to reduce its share capital of 7,232,160 to 6,512,160 registered shares (reduction of 7,200,000 to 6,480,000 registered shares before the issuance of shares from the conditional capital on 6 April 2006) with a subsequent cancellation of the shares bought back. The buying of a maximum of 720,000 registered shares (representing 10% of the share capital) was to be made through a second trading line on virt-x. At the end of 2006, Givaudan had resold all the 133,800 shares bought under the third buy back programme, as part of the financing of the future purchase of Quest International (see note 4 on Business combination – agreement to acquire Quest International).

Movements in own equity instruments are as follows:

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2006	257,952				318
Registered shares					
Purchases at cost	258,460	1,017.24	977.38	905.50	253
Issuance of shares	32,160	1,038.00	1,038.00	1,038.00	33
Sales and transfers at cost	(175,060)	1,163.00	920.18	906.00	(161)
Cancellation of shares	(200,000)	785.13	754.57	735.33	(151)
(Gain) loss, net recognised in equity					(25)
Transaction costs					3
Movement on derivatives on own shares, net					(134)
▶ Balance at 31 December 2006	173,512				136

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2005	592,262				664
Registered shares					
Purchases at cost	701,996	840.00	771.50	735.33	542
Sales and transfers at cost	(636,306)	833.99	779.01	745.60	(496)
Cancellation of shares	(400,000)	771.75	734.25	646.60	(294)
Exchangeable bond obligation					(3)
(Gain) loss, net recognised in equity					151
Movement on derivatives on own shares, net					(246)
▶ Balance at 31 December 2005	257,952				318

Restricted retained earnings and reserves

Restricted retained earnings and reserves include reserves required by statute or other local law in order to give to creditors an added measure of protection from the effects of losses. They include also any amounts received in excess of the par or stated value of registered shares issued.

Dividend distributions

At the Annual General Meeting held on 7 April 2006, the distribution of an ordinary dividend of CHF 17.60 gross per share (2005: ordinary dividend of CHF 9.80 plus an extraordinary dividend of CHF 6.50 gross per share) was approved. The ordinary dividend was paid on 12 April 2006. The distribution to holders of outstanding shares amounted to CHF 126 million and has been charged to retained earnings in 2006.

24. Contingent liabilities

From time to time and in varying degrees, Group operations and earnings continue to be affected by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which it operates.

The industries in which the Group is engaged are also subject to physical risks of various kinds. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

25. Cash flows from operations

in millions of Swiss francs	2006	2005
Result attributable to equity holders of the parent	412	406
Non-operating income and expenses	102	107
Operating profit	514	513
Depreciation of property, plant and equipment	91	87
Amortisation of intangible assets	19	19
Long-lived assets impairment	4	21
Other non-cash income and expenses	(15)	42
Adjustments for non-cash items	99	169
(Increase) decrease in inventories	(6)	(52)
(Increase) decrease in accounts receivable	(32)	(27)
(Increase) decrease in other current assets	(38)	4
Increase (decrease) in accounts payable	(14)	14
Increase (decrease) in other current liabilities	28	8
(Increase) decrease in working capital	(62)	(53)
Income taxes paid	(87)	(92)
Other operating cash flows, net	(15)	(35)
▶ Cash flows from (for) operating activities	449	502

26. Related parties

Transactions between Givaudan SA and its subsidiaries, which are related parties of Givaudan SA, have been eliminated on consolidation and are not disclosed in this note. The financial statements of Givaudan SA are available on pages 40 to 46.

Compensation of key management personnel

The compensation of the Board of Directors and the Executive Committee during the year was as follows:

in millions of Swiss francs	2006	2005
Salaries and other short-term benefits	8	8
Post-employment benefits	1	1
Other long-term benefits	-	-
Share-based payments	10	7
▶ Total compensation	19	16

There are no other significant related party transactions.

27. List of principal Group companies

The following are the principal companies of the Group. The companies are wholly-owned unless otherwise indicated (percentage of voting rights). Share capitals are shown in thousands of currency units.

Switzerland	Givaudan SA	CHF	72,322
	Givaudan Suisse SA	CHF	4,000
	Givaudan Finance SA	CHF	300,000
	Givaudan International SA	CHF	100
Argentina	Givaudan Argentina SA	ARS	10
Australia	Givaudan Australia Pty Limited	AUD	10
Bermuda	Givaudan International Ltd	USD	12
	FF Holdings (Bermuda) Ltd	USD	12
	FF Insurance Ltd	CHF	170
Brazil	Givaudan do Brasil Ltda	BRL	28,500
Canada	Givaudan Canada Co	CAD	12,901
China	Shanghai Givaudan Ltd	USD	7,750
	Givaudan Flavors (Shanghai) Ltd	USD	10,783
	Givaudan Specialties (Shanghai) Ltd	USD	10,000
Colombia	Givaudan Colombia SA	COP	6,965,925
France	Givaudan Participation SAS	EUR	41,067
	Givaudan France Fragrances SAS	EUR	9,600
	Givaudan France Arômes SAS	EUR	1,714
Germany	Givaudan Deutschland GmbH	EUR	4,100
India	Givaudan (India) Private Limited	INR	115,000
	Vinarom Private Limited	INR	80,335
Indonesia	P.T. Givaudan Indonesia	IDR	1,215,600
Japan	Givaudan Japan KK	JPY	1,000,000
Malaysia	Givaudan Malaysia Sdn Bhd	MYR	200
Mexico	Givaudan de Mexico SA de CV	MXN	51,760
Netherlands	Givaudan Nederland BV	EUR	4,050
Singapore	Givaudan Singapore Pte Ltd	SGD	24,000
South Africa	Givaudan South Africa (Pty) Ltd	ZAR	2
South Korea	Givaudan Korea Ltd	KRW	550,010
Spain	Givaudan Ibérica SA	EUR	8,020
Thailand	Givaudan (Thailand) Ltd (79%)	THB	15,400
United Kingdom	Givaudan UK Ltd	GBP	15,700
U.S.A.	Givaudan (United States) Inc	USD	0.05
	Givaudan Fragrances Corporation	USD	0.1
	Givaudan Flavors Corporation	USD	0.1
	Givaudan Flavors, Inc	USD	1.4

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Report of the Group Auditors
to the General Meeting of Givaudan SA
Vernier

As auditors of the Group, we have audited the Consolidated Financial Statements of the Givaudan Group on pages 4 to 38 for the year ended 31 December 2006. These Consolidated Financial Statements are the responsibility of the Board of Directors of Givaudan SA. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Consolidated Financial Statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation.
We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements of the Givaudan Group present fairly, in all material respects, the financial position at 31 December 2006, and the results of operations and the cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with relevant Swiss law.

We recommend that the Consolidated Financial Statements submitted to you be approved.

PricewaterhouseCoopers SA

Ralph R. Reinertsen
Auditor in charge

Andrew J. McCallum

Geneva, 16 February 2007

Statutory Financial Statements of Givaudan SA (Group Holding Company)

Income Statement for the Year Ended 31 December

in millions of Swiss francs	2006	2005
Income from investments in Group companies	117	372
Royalties from Group companies	301	337
Interest income from Group companies	18	9
Other income	156	139
Total income	592	857
Research and development expenses to Group companies	(128)	(117)
Interest expense	(13)	(21)
Amortisation of intangible assets	(17)	(17)
Other financial expenses	(134)	(273)
Other expenses	(20)	(24)
Withholding taxes and capital taxes	(6)	(6)
Total expenses	(318)	(458)
▶ Profit before taxes	274	399
Income taxes	(14)	(2)
▶ Net profit	260	397

Balance Sheet at 31 December

in millions of Swiss francs	2006	2005
Cash and cash equivalents	287	93
Marketable securities	314	187
Treasury shares allotted to share buy back programme		178
Accounts receivable from Group companies	26	37
Other current assets	86	77
Current assets	713	572
Investments in Group companies	1,434	1,421
Loans to Group companies	521	545
Other long-term investments	-	-
Intangible assets	284	276
Non-current assets	2,239	2,242
▶ Total assets	2,952	2,814
Loans from banks	153	152
Accounts payable to Group companies	30	19
Other payables and accrued liabilities	156	141
Current liabilities	339	312
Loans from Group companies	658	563
Non-current liabilities	658	563
▶ Total liabilities	997	875
Share capital	72	74
General legal reserve	99	66
Reserve for own equity instruments	171	197
Free reserve	1,165	1,084
Retained earnings		
Balance brought forward from previous year	188	121
Net profit of the year	260	397
▶ Equity	1,955	1,939
▶ Total liabilities and equity	2,952	2,814

Notes to the Statutory Financial Statements

1. General

The financial statements of Givaudan SA, Vernier near Geneva in Switzerland, are prepared in accordance with the provisions of Swiss company law and accepted business principles.

2. Valuation methods and translation of foreign currencies

Investments in, and loans to and from, Group companies are stated respectively at cost and nominal value less appropriate write-downs. Marketable securities are shown at the lower of cost and market value. Derivatives are re-valued at fair value.

In the balance sheet, foreign currency assets and liabilities are re-measured at year-end exchange rates with the exception of investments in Group companies which are valued at historical exchange rates. Foreign currency gains and losses are recorded in the income statement except for unrealised foreign currency gains which are deferred in the balance sheet.

3. Guarantees

Guarantees issued in favour of Group companies amounted to CHF 300 million (2005: CHF 300 million).

4. Equity

At 31 December 2006, the share capital amounts to CHF 72,321,600 divided into 7,232,160 fully paid-up registered shares with a nominal value of CHF 10 each. Every share gives the right to one vote.

The Board of Directors has at its disposal conditional capital of a maximum aggregate amount of CHF 10,000,000 that may be issued through a maximum of 1,000,000 registered shares, of which a maximum of CHF 1,000,000 can be used for executive share options plans. The Board of Directors was authorised until 16 April 2006 to increase the share capital by up to CHF 10,000,000 through the issuance of a maximum of 1,000,000 fully paid-in registered shares with a par value of CHF 10 per share. At the Annual General Meeting on 7 April 2006, the shareholders approved the extension of the existing authorised capital of CHF 10,000,000 until 7 April 2008. On 6 April 2006, 32,160 shares were issued as conditional capital in order to fulfil obligations relating to the executive share option plans.

On 30 June 2003, the Group started a share buy back programme that was originally planned to last until 30 June 2004. On 14 June 2004, the Board of Directors resolved to extend this programme until 30 June 2005. The Group intended to reduce its share capital of 8,000,000 to 7,200,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 800,000 registered shares (representing 10% of the share capital, before the issuance of shares from the conditional capital on 6 April 2006) was made through a second trading line on virt-x. On 3 May 2005, the Group had completed its second share buy back programme with the repurchase of 800,000 registered shares over a second trading line on virt-x. At the Annual General Meeting on 16 April 2004, the shareholders agreed with the cancellation of 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.5%, from CHF 80,000,000 to CHF 78,000,000. The cancellation became effective on 5 July 2004. At the Annual General Meeting on 27 April 2005, the shareholders agreed with the cancellation of a further 400,000 repurchased shares and with the corresponding reduction of the share capital by 5.1%, from CHF 78,000,000 to CHF 74,000,000. The cancellation became effective on 14 July 2005. At the Annual General Meeting on 7 April 2006, the shareholders agreed with the cancellation of a further 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.7%, from CHF 74,000,000 to CHF 72,000,000. The cancellation became effective on 26 June 2006.

On 6 May 2005, the Group started a further share buy back programme that should have lasted until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. The Group intended to reduce its share capital of 7,232,160 to 6,512,160 registered shares (reduction of 7,200,000 to 6,480,000 registered shares before the issuance of shares from the conditional capital on 6 April 2006) with a subsequent cancellation of the shares bought back. The buying of a maximum of 720,000 registered shares (representing 10% of the share capital) was to be made through a second trading line on virt-x. At the end of 2006, Givaudan had resold all the 133,800 shares bought under the third buy back programme, as part of the financing of the future purchase of Quest International. The CHF 141 million cash received is restricted for the payment of the acquisition.

Movements in own shares are as follows:

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2006	257,952				197
Registered shares					
Purchases at cost	258,460	1,017.24	977.38	909.50	253
Issuance of shares	32,160	1,038.00	1,038.00	1,038.00	33
Sales and transfers at cost	(175,060)	1,163.00	920.18	906.00	(161)
Cancellation of shares	(200,000)	785.13	754.57	735.33	(151)
▶ Balance at 31 December 2006	173,512				171

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2005	592,262				428
Registered shares					
Purchases at cost	701,996	840.00	771.50	735.33	542
Sales and transfers at cost	(636,306)	833.99	752.94	745.60	(479)
Cancellation of shares	(400,000)	771.75	734.25	646.60	(294)
▶ Balance at 31 December 2005	257,952				197

As 31 December 2006, there are no other companies controlled by Givaudan SA that hold Givaudan SA shares.

According to the information available to the Board of Directors at 31 December 2006, Nestlé SA with 11.93% (2005: 11.66%) and Chase Nominees Ltd with 6.89% (2005: 5.03%) of Givaudan shares,were the only shareholders registered with voting rights who held more than 5% of the total share capital.

5. Movements in equity

in millions of Swiss francs	Share Capital	General legal reserve	Reserve for own equity instruments	Free reserve	Retained earnings	Total
▶ Balance at 1 January 2006	74	66	197	1,084	518	1,939
Cancellation of shares	(2)			(149)		(151)
Issuance of shares	-	33				33
Appropriation of available earnings						
Transfer to the general legal reserve				200	(200)	
Dividend paid relating to 2005				4	(130)	(126)
Transfer to/from the reserve for own equity instruments			(26)	26		
Net profit of the year					260	260
▶ Balance at 31 December 2006	72	99	171	1,165	448	1,955

in millions of Swiss francs	Share Capital	General legal reserve	Reserve for own equity instruments	Free reserve	Retained earnings	Total
▶ Balance at 1 January 2005	78	66	428	982	399	1,953
Cancellation of shares	(4)			(290)		(294)
Appropriation of available earnings						
Transfer to the general legal reserve				150	(150)	
Dividend paid relating to 2004				11	(128)	(117)
Transfer to/from the reserve for own equity instruments			(231)	231		
Net profit of the year					397	397
▶ Balance at 31 December 2005	74	66	197	1,084	518	1,939

6. List of principal direct subsidiaries

The following are the principal direct subsidiaries of the company, which are wholly-owned unless otherwise indicated (percentage of voting rights).

Switzerland	Givaudan Suisse SA
	Givaudan Finance SA
	Givaudan International SA
Argentina	Givaudan Argentina SA
Australia	Givaudan Australia Pty Limited
Brazil	Givaudan do Brasil Ltda
China	Shanghai Givaudan Ltd
	Givaudan Flavours (Shanghai) Ltd
	Givaudan Specialties (Shanghai) Ltd
Colombia	Givaudan Colombia SA
France	Givaudan Participation SAS
Germany	Givaudan Deutschland GmbH
India	Givaudan (India) Private Limited
Indonesia	P.T. Givaudan Indonesia
Japan	Givaudan Japan KK
Malaysia	Givaudan Malaysia Sdn Bhd
Mexico	Givaudan de Mexico SA de CV
Netherlands	Givaudan Nederland BV
Singapore	Givaudan Singapore Pte Ltd
South Africa	Givaudan South Africa (Pty) Ltd
South Korea	Givaudan Korea Ltd
Spain	Givaudan Ibérica, SA
Thailand	Givaudan (Thailand) Ltd (79%)
United Kingdom	Givaudan UK Ltd

Appropriation of Available Earnings of Givaudan SA

Proposal of the Board of Directors to the General Meeting of Shareholders

in Swiss francs	2006	2005
Net profit of the year	260,495,247	397,447,090
Balance brought forward from previous year	188,390,845	121,183,755
▶ Total available earnings	448,886,092	518,630,845
Distribution of an ordinary dividend of CHF 18.80 gross per share (2005: CHF 17.60)	135,964,608	130,240,000
Transfer to free reserve	200,000,000	200,000,000
▶ Total appropriation of available earnings	335,964,608	330,240,000
▶ Amount to be carried forward	112,921,484	188,390,845

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Report of the Statutory Auditors
to the General Meeting of Givaudan SA
Vernier

As statutory auditors, we have audited the accounting records and the financial statements on pages 40 to 45 of Givaudan SA for the year ended 31 December 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with relevant Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Ralph R. Reinertsen
Auditor in charge

Andrew J. McCallum

Geneva, 16 February 2007

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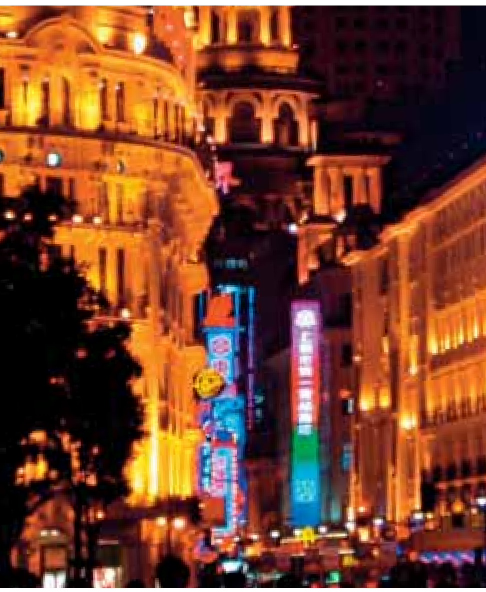

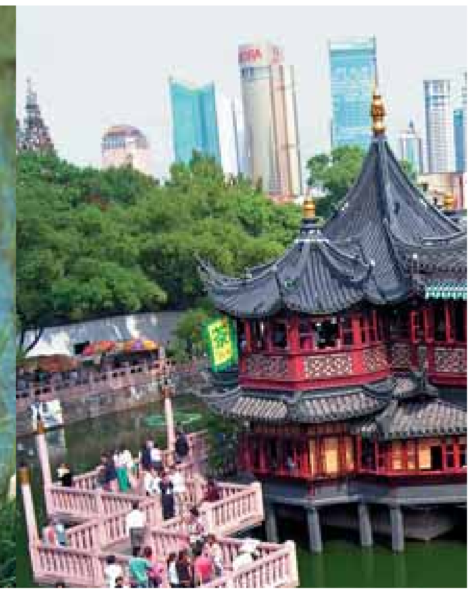

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